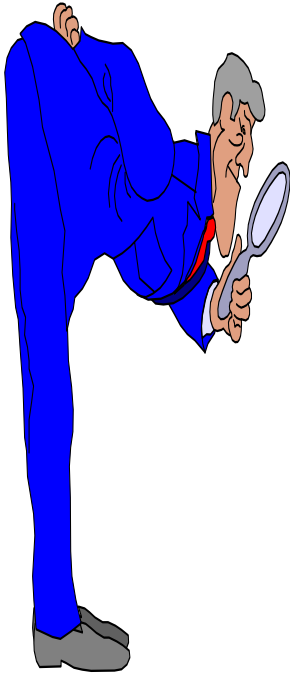


Key Ideas

Chapter 5: Tax Rates & Tax Levies



In this section, we will discuss the following:

- ***The role of certification of assessed values by local officials***
- ***The amount of annual maximum levy increases.***

TAX RATES AND TAX LEVIES

In terms of technical and administrative problems, the most difficult part of the budget process is establishment of an adequate tax rate and tax levy. This is particularly difficult because maximum levy limitations are in place for each city/town. The maximum levy limitation controls the amount of property tax levied by a city/town, thereby placing a cap on revenues available through property tax.

$$\text{Tax Rate} \times (\text{AV} / 100) = \text{Tax Levy}$$

or

$$\text{Tax Levy} / (\text{AV} / 100) = \text{Tax Rate}$$

When determining the levy required for a specific calendar year, cities/towns are required to subtract from projected expenses any amounts of miscellaneous revenue that will be generated in lieu of property tax. The difference, or amount remaining, reflects what is required to be raised in property tax. If the levy, (line 10, Form 4B) remaining after subtraction of miscellaneous revenues is greater than the maximum levy limitation, a city/town has two options:

- 1) an excessive levy appeal, if applicable; or
- 2) a reduction in line item expenditures during the current or proposed calendar year.

Unless the city/town is pursuing an excessive levy appeal for budget purposes, the city/town will automatically be required to reduce current year or ensuing calendar year expenses. A budget reduction is both a financial and political process. The financial aspect covers the requirement in Indiana for a balanced budget, operations within a maximum levy limitation, and avoidance of operating in the red. The political aspects of a balanced budget are evident. No discussion will follow on this area.

In preparing tax rates, local officials rely on the certification of assessed values by the County Auditor. The County Auditor works with the County Assessor to solidify values that represent the assessed valuation of all real and personal property within the county reported by the city or township assessor. The Department of Local Government Finance provides the Auditor and other officials data on valuation of public utilities and on specific taxation limitations.



In preparing tax rates, local officials rely on the certification of assessed values by the County Auditor.

This information is used by each local official in the determination of tax rates and levies for the ensuing calendar year. The information should be received no later than August 1st. If the

City/Town Clerk-Treasurer does not have the information certified from the County Auditor, it should be requested without delay.

Property Tax Levies

Cities/towns are permitted growth under the current tax package. A maximum increase of six percent in levy is provided each year. Cities/towns experiencing more rapid growth may qualify for an additional increase through an excessive levy appeal. The excessive levy appeal procedure described in this manual allows for levy growth in excess of the norm. Proper procedures must be followed to attain this special exception.



A maximum of a six percent increase in levy is provided each year.

The maximum levy limitations are determined by the Department of Local Government Finance and represent the maximum amount of property taxes that may be raised in a given year. The information is furnished to City/Town Clerk-Treasurers prior to preparation of ensuing calendar year budgets. Cities/towns have one maximum levy worksheet. This worksheet encompasses the city/town operating budget. The estimate of funds to be raised through property taxes may not exceed the maximum levy established for the city/town operating budget. This levy limitation includes any levies for city/town general, local road and street and other city/town funds. The Clerk-Treasurer must balance the needs of the city/town with the levy limitations.

Determination of the city/town's proposed property tax rate is calculated on the 16-line statement or Form 4B, Estimate of Funds to be Raised. The Estimate of Funds to be Raised is the property tax levy desired for each fund. Step one involves determining the assessed valuation of taxable property within the city/town's jurisdiction. This assessed valuation is provided by the County Auditor and certified to the Department of Local Government Finance. The same calculation is used for each fund with a property tax levy.

Step two requires the Clerk-Treasurer to take the estimate of funds to be raised on Line 16 of Form 4B and divide that amount by the total assessed valuation (per each \$100 of assessed valuation) for the taxing district to determine the tax rate needed to support the fund.

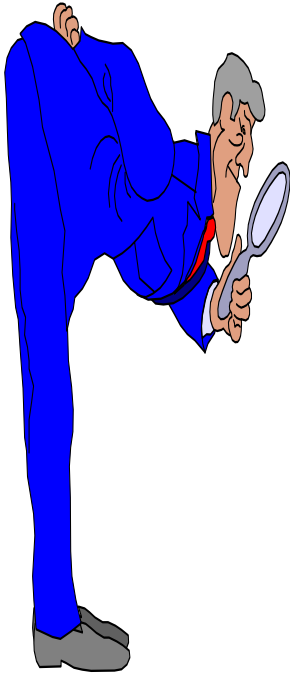
For example: Estimate of funds to be raised is \$100,000
Assessed valuation is \$160,000,000

Tax rate: $100,000 / (160,000,000 / 100) = .0625$ tax rate
(To check your work $.0625 \times 1,600,000.00 = 100,000$)

The tax rate calculated (.0625) represents the amount of property tax needed to support this particular fund. The same calculation is made for all funds with a property tax levy.

Summary

Chapter 5: Tax Rates & Tax Levies



In this section, we have discussed the following:

- *In preparing tax rates, local officials rely on the certification of assessed values by the County Auditor.*
- *A maximum of a six percent increase in levy is provided each year.*

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